

DECEMBER 3, 2001

# Mayor's Letter

TO THE MEMBERS OF THE CITY COUNCIL, AND THE CITIZENS OF CHATTANOOGA, TENNESSEE:

It is my privilege to present to you the annual report for the City of Chattanooga for the fiscal year ended June 30, 2001. This report affirms the strong fiscal condition of our City.

Since coming to office in April of this year, we've launched several key initiatives which we believe will create a strong economic infrastructure in our community. We are committed to stimulating economic growth in Chattanooga, an effort which is vital for maintaining our City's strong fiscal character and ensuring that every citizen has the opportunity to have a good paying job.

I am very appreciative of the cooperation our administration has received from Council Members and commend them for their commitment to making Chattanooga a great City. In addition, our Department Heads and the citizens of the community have been very supportive as we have worked together to implement a vision we believe will expand the viability of our City.

We believe that our focus on economic development coupled with our emphasis on education and the development of strong, safe neighborhoods will be instrumental toward Chattanooga becoming a great City in the new South.

Specifically, our economic development initiatives are geared toward:

- ***The creation of a dynamic business recruitment effort in our City.*** We are working closely with the Chamber of Commerce to make the recruitment of new businesses a top priority for our community. We are coordinating our energies to make sure that we put a person in place to lead this effort with a strong track record of business recruitment successes and an extensive rolodex of business and industry contacts around the country.

- ***Ensuring that small businesses and entrepreneurs have access to capital.*** Since coming to office, we have partnered with a venture capital firm, Southeast Community Capital (formerly called Tech 2020), which brings a portfolio of nearly \$50 million in capital and loans for new, start-up, minority owned or existing businesses. In addition to the financial tools that they bring to Chattanooga, Southeast Community Capital will administer the "Chattanooga Opportunity Fund," a \$1.5 million

capital fund, established by the City, which is available for start-up and minority owned businesses. As the Chattanooga Opportunity Fund proves successful, we hope to increase the capital available to our citizens by enlisting additional community support. In order to ensure the success of Southeast Community Capital's Chattanooga office, the City has provided funding for some of the administrative costs, provided office space and subsidized some administrative fees. We've also enlisted the help of private sector citizens to ensure the success of this fund.



PHOTO BY CROWN GRAPHICS

- ***Creating a digital vision for our City.*** We have launched the first phase of our digital vision with a generous gift from the Electric Power Board (EPB) as its centerpiece. The EPB has donated the use of two strands of dark fiber optic cable which circles the city to aid in our economic development efforts. This resource ensures that businesses in our community with high data transfer needs have access to digital technology at competitive prices. We have also signed an agreement with Oak Ridge National Laboratory (ORNL) which gives Chattanooga an "off ramp" to one of the world's most powerful fiber optic

lines being constructed between Oak Ridge and Atlanta. Through the donation of additional strands of fiber by the EPB, the ORNL fiber line will connect directly to the UTC campus, significantly enhancing their capabilities to do applied research. Finally, we have developed and convened a Technology Council, whose membership represents some of our community's finest technology companies. This group will be instrumental in helping us shape our digital and technology vision for Chattanooga.

- ***Properly and immediately developing the Volunteer Army Ammunition Site (VAAP).*** Circumstances are finally right for the development of the Volunteer Army Ammunition Plant site. In this year's budget, the city has set aside substantial capital for the purpose of making that site one of the country's premier venues for locating new businesses. The County will equally share in all of the expenses of this development. We have retained the services of a full-time project manager who will coordinate the development of VAAP. He is working with Fluor Location Strategies, an internationally renowned company, and Barge,

Waggoner, Sumner, & Cannon who are assisting us in determining the best blueprint for developing the site. Our ultimate objective is to make sure that we design VAAP in such a way that we create the largest number of high paying jobs per acre at the site.

- **Focused on improved transportation options for Chattanooga.** Since taking office, we have been involved with the Airport Authority in their efforts to recruit an airport CEO who is working very hard to improve airline services for our community. In light of the problems all airlines are experiencing nationally, his work will be even more challenging. Despite these obstacles, our ultimate goal is to bring in additional carriers and ensure competitive rates for passengers who use our airport. We are also exploring all transportation options in the region and making sure that Chattanooga is part of any discussion involving expanding the air or rail capabilities of our area. In that regard, we have partnered with the State of Tennessee, the State of Kentucky, Nashville and Louisville in commissioning a study that will address the feasibility of establishing rail service that connects Atlanta and Chicago via Chattanooga, Nashville and Louisville. We have contributed \$100,000 toward this effort. Additionally, through our participation with the Atlanta Regional Commission, we want to be certain that Chattanooga continues to work with Atlanta and the State of Georgia on a regional approach to transportation that will benefit our citizens.

- **Making the University of Tennessee at Chattanooga the "jewel" of the UT System.** We believe that every great City has a great University. We are committed to assisting UTC in making it a place that attracts talented people across the country. We know that when those people come here for school, in many cases they stay and work in our community and raise their families here. We are especially excited about UTC's use of the digital connection from Oak Ridge. University officials indicate that this resource will bring them to a new level academically and allow them to engage in applied research activities which were never before possible. We continue to work with UTC regarding their campus needs and are committed to helping them develop a university with a dynamic campus life which is surrounded by vibrant neighborhoods. To this end, our office has established a liaison to the Martin Luther King area to help coordinate the efforts of that community and to help them take advantage of UTC's increased presence in that neighborhood.

We have also launched three other initiatives which we believe are crucial to the success of our community:

- **Driving up educational achievement and removing all low performing schools in our community currently on the State's "on-notice" list.** We have formed the Community Education Alliance, a group of 13 leaders in business who are working in coordination with the Hamilton County Department of

Education and the Public Education Foundation to address the problems specific to those 9 high priority elementary schools in our community. This Alliance will specifically address teacher recruitment, teacher retention and the better coordination of the City administered Head Start program at these schools. We have directed City Sales Tax revenues toward making this initiative successful.

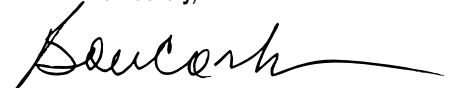
We are focused on enhancing Neighborhoods in Chattanooga:

- **Improving the 15 most distressed neighborhoods in our community.** When we came to office, we began evaluating the work of the City's Neighborhood Services department and determined that they were providing great services, but that their efforts were focused on 145 neighborhood associations in Chattanooga. While those services to our community will continue, we asked Neighborhood Services to devise a plan that would vigorously target the community's most distressed neighborhoods. This challenge led to the creation of the Strategic Neighborhood Initiative (SNI), an effort focused on 15 high priority neighborhoods with high crime, rampant absentee landlords, declining real estate values and a depressed economic corridor. The SNI is directed toward improving housing stock, addressing crime and safety issues, developing leadership and spurring business and economic development efforts in the selected neighborhoods. A key piece of the SNI is a Neighborhood Crime Prevention Plan which increases directed patrols in neighborhoods, ensuring faster response to calls for service and a more timely response for investigating crime.

- **Keeping City streets clean.** Chattanooga is known across the country as the Scenic City of the South. We are committed to living up to that reputation and have launched a City-wide cleanup effort to eliminate illegal trash and brush that in the past littered Chattanooga streets. We have launched a refuse policy which has a new enforcement component that will ensure compliance and aid us in keeping our City clean.

We believe that the successful implementation of these initiatives will position us to take advantage of the next national economic expansion and ensure that our community is a place where people and companies want to locate. As Mayor, I look forward to a future of great accomplishments where every citizen in our community believes that the best is yet to come. As we work together, we will make Chattanooga a great City in the New South.

Sincerely,



Bob Corker, Mayor



Yusuf A. Hakeem **DISTRICT 9**  
Chairman of the Council

## Chattanooga City Council



John Lively **DISTRICT 1**



Sally Robinson **DISTRICT 2**



Dan Page **DISTRICT 3**



Jack Benson **DISTRICT 4**



John P. Franklin **DISTRICT 5**



Ron Littlefield **DISTRICT 6**



John Taylor **DISTRICT 7**



Leamon Pierce **DISTRICT 8**

PHOTOS BY NED DEMENT, HOUSE OF PHOTOGRAPHY





# City of Chattanooga

DEPARTMENT OF FINANCE AND ADMINISTRATION

CITY HALL ANNEX

Chattanooga, Tennessee 37402

PHONE: (423) 757-6230 • FAX: (423) 757-0526

**Bob Corker**  
Mayor

**James S. Boney**  
City Finance Officer

NOVEMBER 29, 2001

LETTER OF TRANSMITTAL

To the Honorable Mayor Bob Corker, Members of the City Council and the Citizens of Chattanooga, Tennessee:

In compliance with state and local statutes, I am submitting the Comprehensive Annual Financial Report (CAFR) of the City of Chattanooga for the fiscal year ended June 30, 2001. These ordinances and statutes require that the City of

Chattanooga issue annually a report on its financial position and activities, and that an independent firm of certified public accountants audit this report. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with management. To the best of our know-

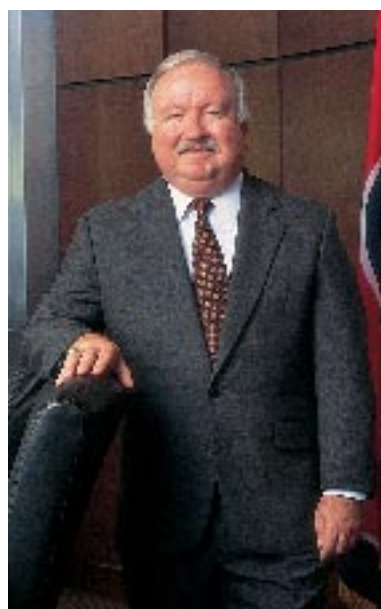


PHOTOS BY MED DEMENT, HOUSE OF PHOTOGRAPHY

*Daisy W. Madison, Deputy Finance Officer*

ledge and belief, the enclosed data are accurate in all material respects and are reported in a manner that presents fairly the financial position and results of operations of the various funds, account groups and component units of the City of Chattanooga, Tennessee. All disclosures necessary to enable the reader to gain an understanding of the City of Chattanooga's financial activities have been included.

The Comprehensive Annual Financial Report is divided into four sections: introductory, financial, single audit, and statistical. The introductory section includes this transmittal letter, a letter from the Mayor, the City's organization chart, and a list of government officials. The financial section includes the general purpose financial statements and the combining and individual



*James S. Boney, Finance Officer*

fund and account group financial statements and schedules, as well as the independent auditor's report. The single audit section includes information related to the Single Audit Act of 1984 and U.S. Office of Management and Budget Circular A-133, "Audits of States and Local Governments, and Non-Profit Organizations."

The statistical section, which is unaudited, includes selected financial and demographic information, generally presented on a multi-year basis.

Blended component units, although legally separate entities are, in substance, part of the primary government's operations and should be included as part of the primary government. A review of the various potential component units

indicated that there are none which should be included as part of the primary government. However, the Electric Power Board, which is not a legally separate entity, is reported as an enterprise fund of the primary government. Discretely presented component units are reported in a separate column in the combined financial statements to emphasize that they are legally separate from the primary government and to differentiate their financial position, results of operations and cash flows from those of the primary government. The Metropolitan Airport Authority, the Chattanooga Area Regional Transit Authority, and the Southside Redevelopment Corporation are reported as discretely presented component units.

The City provides a full range of municipal services including but not limited to fire and police protection; sanitation services; the construction and maintenance of highways, streets and infrastructure; recreation and cultural activities; public library; community development; planning and zoning; neighborhood services; social services; and general administrative services. It also operates a storm water maintenance program and a sewer and sewage facility system for its residents and for other communities in southeast Tennessee and northwest Georgia.

## Governmental Structure, Economic Conditions and Major Initiatives

Founded as a ferry landing and warehouse site in 1815, the City of Chattanooga was incorporated under State of Tennessee Private Acts of 1839. The City is the county seat of Hamilton County and is located near the southeastern corner of the state on the Tennessee-Georgia border. It encompasses an area of 144.16 square miles and a population of 155,554. The City is centrally located in relation to other major population centers of the southeast, being within a 150-mile radius of Knoxville and Nashville, Tennessee; Birmingham, Alabama; and Atlanta, Georgia. Over 11 million people live within a 2 to 2½ hour drive of Chattanooga. The City is empowered to levy a

property tax on both real and personal property located within its boundaries. It also has the power to extend its corporate limits by annexation in accordance with procedures under an "Urban Growth Plan" agreed to between the city and the county.

Chattanooga is one of the nation's oldest manufacturing cities with 18.8 percent of its employment in that sector. However, there is no single dominating industry. Employment in the Chattanooga area is diverse. In addition to manufacturing, the services and trades sectors have also come to the forefront in recent years, making up 26.1% and 21.2% of local employment, respectively. Economic advantages such as ample utilities, an efficient transportation system, abundant natural resources, a trained labor force and centralized location make Chattanooga a diversified and profitable business location. This largely accounts for the City's low unemployment rate, which stands at 3.2 percent as of September 2001. This is comparable to the national unemployment rate of 4.9 percent and the state rate of 4.0 percent. Retail sales rose 7 percent over 1999. Our economy

*Dedication of the  
Aquatic Center at the  
North River YMCA,  
October 2001*



PHOTOS BY CROWN GRAPHICS



*New housing at UTC.*

*Mayor Corker discusses future technological, recruiting and academic plans with UTC Chancellor Bill Stacey.*



PHOTOS BY CROWN GRAPHICS

is experiencing steady growth as indicated by a record number of building permits. While the total value of all construction from those permits fell from their all-time 1999 high, the value of residential construction reached a record high \$102.8 million, a 21% increase over 1999.

The City has undergone a renaissance that can be surpassed by no other city of its size. The City's rebirth, which began in 1982 with the establishment of the Moccasin Bend Task Force, has resulted in nearly \$1 billion of investments in developments such as retail, restaurants, office space, housing, and tourist attractions.

Three years ago, the State granted approval of a development mechanism known as the Tourist Development Zone (TDZ), which encompasses the heart of Chattanooga's downtown. The zone, known as the Southside Redevelopment District, is comprised of three districts — the Aquarium/Ross's Landing District, the Central Business District and the Southside Redevelopment District. The City, through the Southside Redevelopment Corporation, is in the final phase of this project. The development will be supported by allocations of incremental increases in state and local sales and use tax revenues. Four facilities will contain more than 631,210 square feet and cost in excess of \$117.7 million. It is anticipated that this investment will leverage more than \$400 million in private investment by 2006.

The Southside Redevelopment District is an opportunity to create a model community by rebuilding the District's job base and revitalize housing opportunities. In the heart of the TDZ is the convention and conference complex that includes four public use facilities as follows. Three of the four facilities are complete and operational.

**The Chattanooga** – a 208,210 square foot residential meeting facility opened in April 2001. This conference and training facility is targeted for upscale small-to medium-sized groups of less than 250 people with 200 guest rooms and 27,000 square feet of fully equipped meeting room space. – Cost: \$43.5 million.

**New Parking Facility** – located between the conference and training center and the trade center, the new 1,029-space parking facility, which opened in April 2001, is designed to serve the needs of increased traffic in the convention and conference complex and replacement parking. – Cost: \$10.8 million.

**Development Resource Center** – a new facility that will exhibit improved efficiencies that can be achieved by utilizing best building practices in its own design and operation thus serving as a model for better ways to develop a sustainable community. This 85,000 square foot facility, which will open in December, 2001, is located one block from the conference and training center. – Cost: \$11 million.

**Chattanooga-Hamilton County Convention and Trade Center Expansion** – a 226,000 square foot addition to the successful Convention and Trade Center, currently under construction, will enable the community to attract more and larger conventions, meetings and trade shows. The expansion will more than double the size of the current facility, adding new exhibit space, meeting and banquet rooms. – Cost: \$50 million.

The developments that have taken place throughout the North Shore, the Central Business District, and the Southside have come together to make the downtown Chattanooga area a gathering place for night and family and recreational activity. One new public investment spurred by these successes is a new



school in the Southside, currently under construction, which represents the first new school building in the downtown area in decades. Other investments in the area include the renovation of a former office building into a school for children with special needs, revitalization of a department store building as a premier downtown housing development, a new bank branch, and a new office building in the central business district. Community business leaders also have proposed plans to convert a vacant warehouse into professional office space, build a new hotel next to the Trade Center, and to renovate several other historic buildings in the downtown area.

Neighborhoods and quality, affordable housing continue to be a priority in the community. The Chattanooga Neighborhood Enterprise broke ground on a 20-unit apartment building within eyesight of the University of Tennessee at Chattanooga. This unit will complement new housing units already built in the area.

The City continues to implement, through the Chattanooga Housing Authority, the HOPE VI Grant. This \$35 million grant from the Department of Housing and Urban Development (HUD) anchors a \$159 million project to replace the Spencer J. McCallie Homes and revitalize the surrounding Alton Park neighborhood. Coupled with the Alton Park Development Corporation's master plan, the HOPE VI grant will bring about a major revitalization of one of the City's most depressed neighborhoods.

Despite the global attention to Chattanooga's downtown and environmental successes, economic growth in Chattanooga trails most of the rest of the South. During the 1990s, Chattanooga added jobs at only half the pace of the rest of the state. City officials have focused efforts on ways to reverse this trend of slow employment growth. The business culture in Chattanooga is on the verge of change. A venture capital firm with nearly \$50 million in assets has been recruited to set up an office here. This will give entrepreneurs the needed access to capital that has been scarce in our local business environment. Additionally, \$1.5 million has been allocated by the City to target creation of new minority-owned businesses. The Chamber of Commerce, charged with the task to oversee economic development, has implemented its plan for a larger economic recruitment program. This will include hiring of a

business recruitment expert as part of its long-term plan to create more jobs.

Chattanooga is also poised on the leading edge of the technological age. The Electric Power Board of Chattanooga has donated a portion of its nearly 60 mile fiber optic ring for economic development. This move is anticipated to create a high speed information corridor allowing Chattanooga to become a hub for future research, information sharing, and job growth. This hub has already attracted a new long distance firm to locate in the heart of the central business district, bringing new jobs to the area.

City and County officials have initiated plans for the development of the old Volunteer Army Ammunition Plant site. The \$7.5 million investment by the City and County provides a 940-acre tract, located within 2 miles of Interstate 75, approximately 700 acres of which can be made available for industrial development almost immediately. This is the largest block of land available within the city limits in several decades. Infrastructure is in place to support a wide range of manufacturing and industrial uses. The entire site exceeds 6,000 acres, and efforts continue to acquire the remaining portions for industrial and recreational uses.

Hamilton Place Mall, Tennessee's largest, and now in its thirteenth year of operation, remains a magnet for millions of people. The 1.4 million-square-foot mall has brought in many



RENDERING BY TWH ARCHITECTS, INC., CHATTANOOGA, TENNESSEE

*The Southside Elementary School, located at the corner of Main and Market Street, is scheduled to open in the fall, 2002.*

PHOTO BY JIM DEMENT



## FOCUS ON CHATTANOOGA'S

## Neighborhood Services Department

A city is but a reflection of the dreams, goals and achievements of its citizens. Chattanooga is committed to providing neighborhoods and individuals with the tools to address their most pressing needs while improving their quality of life. In 1996, recognizing the importance of strong neighborhoods to a thriving city and realizing that quality of life concerns can be most effectively addressed at the

neighborhood level, the City of Chattanooga made manifest its commitment to neighborhoods by creating the Neighborhood Services Department.

The Neighborhood Services Department maintains the city's commitment to building strong neighborhoods through programs designed to promote



PHOTO BY KEVIN KCHENZIE

*Kenardo Curry, Administrator*

the welfare of neighborhoods, enhance community pride and encourage citizen participation.

Codes enforcement and neighborhood development staff address problems and concerns at the neighborhood level. The Neighborhood Relations Division supports the belief that the real strength of the community lies in the efforts of individual organizations. Its Neighborhood Relations Coordinators provide assistance and support to local neighborhood associations, making sure that their needs are met and their voices are heard.

The Codes Enforcement Division works to preserve and improve the physical neighborhood by enforcing compliance with the city's codes and ordinances.

The city's investment in healthy neighborhoods is ultimately an investment in people, in a sense of community and in an ethic of shared pride. These are some of the programs the department offers:

tourists and locals with a savvy mix of new and familiar stores, theme restaurants and movie theaters. Thanks to the mall, the area has become a retail hotbed with more than 15 million visitors a year. Sales at Hamilton Place have grown steadily over the past decade and now average 30 percent above the national average for regional malls. That success has quickly spilled across Gunbarrel Road and Interstate 75. The number of businesses and amount of traffic in the mall area has more than doubled over the past decade. CBL and Associates, the mall's owner and developer of major retail space nation wide, has begun development of a multi-acre site on the south perimeter of the mall. Phase I is the construction of their new national headquarters office building, expected to be completed in January.

The City's two biggest local revenue sources are sales and property taxes. The local option sales tax rate is 2.25 percent (1.75 percent county-wide and .5 percent city only). The additional revenues generated by the 1/2 percent city only sales taxes are earmarked for schools and economic development. Following two successive reductions the property tax rate has remained at \$2.31 per \$100 assessed valuation for the past four years.

The City's capital initiatives reflect its continual commitment to economic development and long term sustainability of the City. In addition to the operating budget, over \$30.7 million was appropriated for major initiatives. These include \$3.3 million for continued implementation of the RECREATE2008 plan which is a 10-year, \$65 million plan to upgrade the City's parks and playgrounds; \$14.3 million for various public works projects such as paving, street improvement, curbs, gutters and sidewalks, downtown streetscape, and equipment replacement; \$3.5 million for the Development Resource Center; \$1.6 million for fire vehicles and other equipment; \$4.2 million for police fleet replacement, building renovation and miscellaneous equipment; and \$1.3 million for major building repairs.

## Department Focus

Each year, we focus attention on the efforts of one department. The Neighborhood Services Department has been selected as this year's focus.



**Fight the Blight** – Few initiatives have done more to improve the city's appearance, boost civic pride and encourage citizen participation than the annual Fight the Blight campaign. Hundreds of individuals and civic groups take to the streets each year to document code violations in their neighborhoods, providing invaluable first-hand information to code enforcement officials.

**Chattanooga Neighborhood Association Council** – People in Chattanooga are taking control of their neighborhoods, organizing themselves around important issues, and making things happen. In 2001, as a result of a department led task force investigation, the Chattanooga Neighborhood Association Council was created as a way to help neighborhood associations build a common agenda and realize commonly held goals.

**Mayor's Annual Conference on Neighborhoods** – The annual conference introduces citizens to community resources, provides learning opportunities and trains neighborhood association leaders to be both inclusive and effective. Since its initiation in 1999, over 2000 citizens have attended the annual two-day event.

**Neighborhood Grants** – The Neighborhood Services Department provides money – \$425,000 over the past three years – to Chattanooga neighborhood associations for a broad array of neighborhood-initiated improvements and projects. These grants are matched to each neighborhood's contribution of volunteer labor, materials, professional services or cash, resulting in a combined value of \$1.5 million in neighborhood improvements since 1998.

**Common Ground** – This free quarterly magazine sheds light on individuals who are making a difference in their neighborhoods, on the character of our diverse neighborhoods, on new public and private initiatives that are improving our quality of life, and on our neighborhoods' achievements and celebrations.



*Above – R.O.A.R. mascot discourages illegal dumping. Below, staff members discuss neighborhood programs*



*Above – Marcia Greene, Codes Enforcement Coordinator*

**Common Vision** – The community visioning process can provide neighborhood associations with a new approach to meeting challenges and solving problems. Common Vision, a handbook that includes instructions and helpful information on strategic planning, program development, and group management techniques, is helpful to both citizens who want to create a neighborhood association as well as established associations that are developing long-range plans.

**R.O.A.R. – Report Offenses, Achieve Rewards** – This community involvement campaign informs the public about the problem of illegal dumping in neighborhoods, teaches what can be done to prevent it, and offers cash incentives for getting involved in actively reporting incidents. Citizens who report illegal dumping activities through the department's 24-hour hotline receive a \$50 reward when their report leads to a conviction.

**Tow for Dough** – This campaign is aimed at ridding neighborhoods of junk vehicles by offering towing services and cash incentives. Every spring and fall, the department takes requests and schedules towing services for each city district. Owners of inoperable vehicles are paid \$50 by the towing company.

**Guide to City Services** – One of the goals of the Neighborhood Services Department is to act as a clearinghouse for information, helping citizens obtain the services they need from local government as well as other sources. Each year the department updates its 70-page directory of services and distributes it to citizens at no cost.

In every section of the city, the Neighborhood Services Department works to enhance community life today while laying the groundwork for a vibrant tomorrow.

The future of Chattanooga's neighborhoods is in good hands.

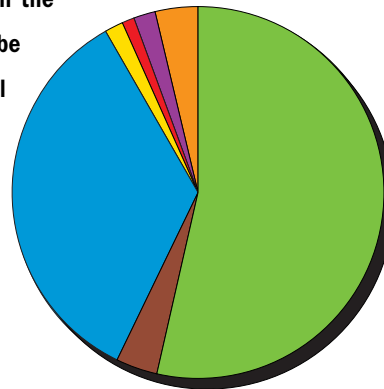
# Accounting System and Budgetary Control

The City's financial records for General Governmental Funds and Expendable Trust and Agency Funds are maintained on a modified accrual basis of accounting. Under this method of accounting, revenues are recognized when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures, other than interest on long-term debt, are recorded as liabilities when incurred. The accrual basis of accounting is utilized for the Proprietary Funds and Pension Trust Funds.

In developing and evaluating the City's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance requires evaluation and judgment by management in order to determine if the cost of control exceeds the benefits likely to be derived. In conjunction with the system of internal control, the City has an office of internal audit which provides support by reviewing and appraising existing accounting and management controls and ascertaining compliance with existing plans, policies and procedures.

All internal control evaluations occur within the above framework. We believe that the City's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

The City administration annually prepares a plan of services for the upcoming fiscal year and the estimated cost of providing these services. This plan is reviewed by the City Council and is formally adopted by the passage of a budget ordinance. Upon adoption of the annual budget ordinance by the Council, it becomes the formal budget for City operations. After the budget ordinance is adopted, the Council can increase the budget only if actual receipts exceed the estimates or from accumulated surplus in the amount of an unexpended appropriation from the previous fiscal year. Budget control is maintained by recording encumbrances as purchase orders are written. Financial reports, which compare actual performance with the budget, are prepared monthly and presented to the Council, allowing the Council to review the financial status and measure the effectiveness of the budgetary controls. Open encumbrances are reported as reservations of fund balance at June 30, 2001. All unencumbered and unexpended appropriations lapse at year-end.



## General Government Functions

Table 1 below presents a summary of General Fund, Special Revenue Funds, Capital Projects Funds,

REVENUES	2000 Amount*	2001 Amount*	Percent % Of Total	Increase (Decrease) From 2000 Amount*	Percent
Taxes	\$ 88,175	\$ 90,999	53.55	\$2,824	3.20
Licenses and permits	6,102	6,134	3.61	32	0.52
Intergovernmental	64,082	58,682	34.53	(5,400)	(8.43)
Charges for services	2,701	2,744	1.62	43	1.59
Fines, forfeitures and penalties	1,895	1,826	1.08	(69)	(3.64)
Investment earnings	3,533	3,217	1.89	(316)	(8.94)
Miscellaneous	8,039	6,326	3.72	(1,713)	(21.31)
<b>TOTAL REVENUES</b>	<b>\$174,527</b>	<b>\$169,928</b>	<b>100.00</b>	<b>(\$4,599)</b>	<b>(2.64)</b>

\*Dollar amounts expressed in 1,000s

TABLE 1

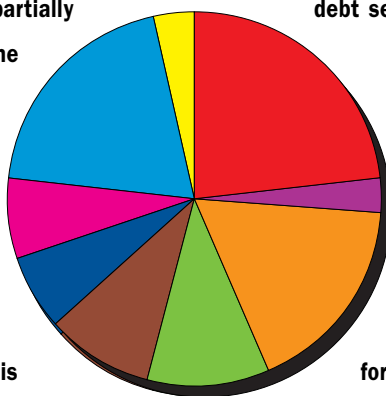
and Debt Service Fund revenues for the fiscal year ended June 30, 2001, and the amount and percentage of increases or decreases in relation to the prior year.

Revenues for all Governmental Fund types (Table 1) totaled \$169,928,363, in 2001, a decrease of 2.64 percent compared with 2000. Major percentage changes include an 8.43 percent decrease in intergovernmental revenues, an 8.94 percent decrease in investment earnings, and a 21.31 percent decrease in miscellaneous revenue sources. The \$5,399,710 (8.43%) decrease in intergovernmental revenue is mainly due to the discontinuation of the Private Industry Council, a reduction of \$6,291,032 (100%). This is partially offset by an increase of \$421,112 (4.76%) in Human Services Programs and a \$506,270 (45.99%) increase in state and county funding of capital projects. The \$316,354 (8.94%) decrease in investment earnings is due to a decrease in interest rates on investments. The \$1,712,567 (21.31%) decrease in miscellaneous revenue is mostly due to a \$1,721,194 (100%) decrease in miscellaneous funding for projects, a \$561,652 (42.52%) decrease in private donations, and a \$73,768 (60.86%) decrease in property rental, all of which was partially offset by a \$928,974 (590.49%) increase in the sale of city-owned property. All of these decreases in major categories were partially offset by a \$2,555,701 (4.27%) increase in property taxes.

Changes in levels of expenditures for major functions of the City over the preceding year are presented in Table 2 below. An analysis

of the \$185,683,954 in expenditures for fiscal year 2001 shows an increase of 7.25 percent over the previous year. This increase is primarily due to a \$1,105,624 or 116.38% increase in premium payments to the liability insurance fund, a \$1,860,830 or 6.18% increase in Police, a \$772,969 or 4.73% increase in Public Works, and a \$14,031,104 or 62.74% increase in Capital, partially offset by a \$5,188,882 or 10.80% decrease in General Government and a \$710,267 or 9.83% decrease in Debt Service. The increase in Police is mainly due to a \$1,371,556 (5.48%) increase in salaries and benefits and a \$294,483 (15.56%) increase in fleet maintenance costs. The increase in Public Works is mainly due to a \$505,842 (2.42%) increase in salaries and benefits. The increase in Capital is mainly due to major expenditures including \$450,000 for new fire trucks, \$1.2 million on the Development Resource Center, completion of a new \$2.2 million fire hall, and work in progress of \$2 million on a new recreation complex. The decrease in General Government is primarily due to the discontinuation of the Private Industry Council, a reduction of \$6,302,822 (100%). The decrease in Debt Service was due to a reduced debt service requirement.

Fund balances reflect the accumulated excess of revenues and other financing sources over expenditures and other uses of funds. Of the total general fund balance at June 30, 2001, \$5,509,652 is designated for subsequent year's expenditure. The undesignated portion of the General Fund balance is necessary for the City to operate on a responsible financial



EXPENDITURES	2000 Amount*	2001 Amount*	Percent % Of Total	Increase (Decrease) From 2000 Amount*	Percent
General government	\$ 48,063	\$ 43,774	23.57	(4,289)	(8.92 )
Finance and administration	5,421	5,508	2.97	87	1.60
Police	30,137	31,998	17.23	1,861	6.18
Fire	19,145	19,528	10.52	383	2.00
Public works	16,341	17,114	9.22	773	4.73
Parks, recreation, arts and culture	12,071	12,010	6.47	(61)	(0.51 )
General services	12,366	12,837	6.91	471	3.81
Capital outlay	22,362	36,393	19.60	14,031	62.74
Debt service	7,233	6,522	3.51	(711)	(9.83 )
<b>TOTAL EXPENDITURES</b>	<b>\$173,139</b>	<b>\$185,684</b>	<b>100.00</b>	<b>\$12,545</b>	<b>7.25</b>

TABLE 2

\*Dollar amounts expressed in 1,000s



basis. The fiscal year 2001 budget included a \$2.8 million appropriation from fund balance for one-time expenditures. Expenditures less than appropriations resulted in a reduction in general fund balance of only \$2,056,121. A ten-year analysis of the changes in fund balance is shown in Table 3 below.

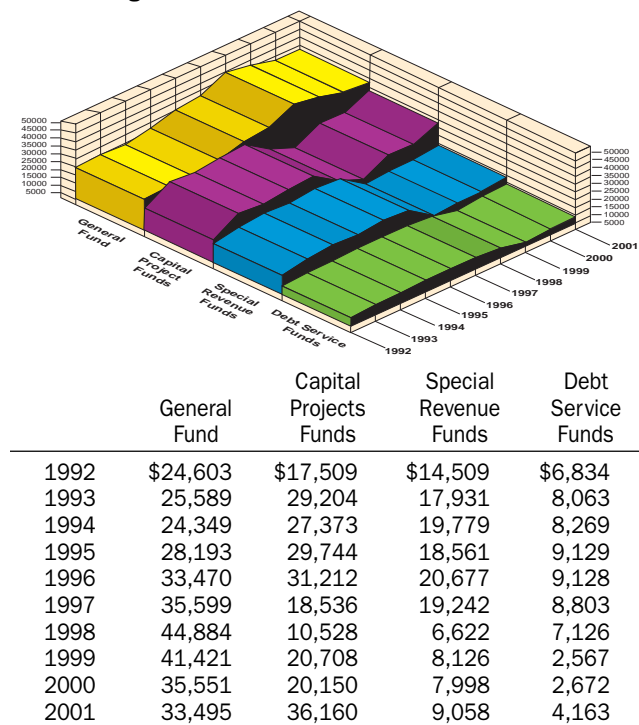


TABLE 3

Dollar amounts expressed in 1,000s

## Debt Administration

The City is authorized to issue general obligation bonds for capital projects. The City Council may authorize the issuance of tax-supported bonds by a simple majority vote, with notification of the action published in local newspapers. Unless 10 percent of the qualified voters protest the issuance by petition within 10 days of notification, the bonds may be issued as proposed. Both principal and interest on general obligation bonds are payable from ad valorem taxes which may be levied by the City Council subject to a legal debt limit of 10 percent of assessed valuation of property. The City Council is also authorized to issue revenue bonds to finance capital improvements for its various enterprise activities and loan agreements and capital leases for various other public benefit.

The City entered into a Loan Agreement with the Tennessee Municipal Bond Fund on February 10, 1997 whereby

a line of credit was established for up to \$7,908,000 for various general government capital projects. At June 30, 2001, the City had a balance outstanding of \$6,064,523. During fiscal year 2001 the City entered into a capital lease on a building. At June 30, 2001 the outstanding balance was \$144,000. The City also entered into a lease purchase of sewer system improvements from another municipal government. At June 30, 2001 the outstanding balance was \$304,399. General Obligation Bonds were issued in March, 2001 in the amount of \$48,310,000. This funded various capital improvements of the general government in the amount of \$39,576,000; solid waste system improvements in the amount of \$6,734,000; and stormwater system improvements in the amount of \$2,000,000.

At year-end, the primary government and its component units had a number of debt issues outstanding. These issues included \$258,442,849 in general obligation debt, of which revenues from the City's Enterprise Funds support \$178,059,226. The primary government also has \$40,000,000 in revenue bonds outstanding at year-end for the Electric Power Board, an Enterprise Fund. Two component units have revenue bonds outstanding. These include \$11,836,149 for the Metropolitan Airport Authority and \$129,200,000 in lease rental revenue bonds issued by the Southside Redevelopment Corporation.

The City has maintained a "AA" rating from Standard & Poor's and Fitch Investor's Service. Both agencies cite sound financial management, fund balance reserves, the debt retirement policy, and a history of pay-as-you-go capital financing as justification for the favorable ratings.

The ratio of net indebtedness to assessed valuation and the amount of bonded debt per capita are useful indicators of the City's debt position to management, citizens, and investors. Table 4 (below) provides this information as of June 30, 2001.

Debt Ratios	Amount (thousands)	Debt To Assessed Ratio	Debt Per Capita
Net direct debt (excluding self-supporting debt)	\$ 76,220	2.79%	\$ 490
Estimated overlapping debt	103,118	3.78%	663
Net direct and estimated overlapping debt	\$179,338	6.57%	\$1,153

TABLE 4

## Cash Management

The City strives to keep abreast of current trends and procedures for cash management and forecasting so as to ensure efficient and profitable use of the City's cash resources. State statutes, however, restrict the City's ability to incorporate as policy many investment methods. Cash temporarily idle during the year is invested in commercial banks and savings and loan certificates of deposit as well as various instruments guaranteed by the United States Government. These instruments have terms ranging from one week to one year. Cash idle for a longer period of time is invested in longer-term government securities.

## Risk Management

The City manages exposure to risk of loss through several methods. Such methods include contracts with commercial carriers for property insurance, surety bond coverage of officials and employees, and commercial liability coverage for specified situations. The City assumes the risk of loss for general liability not covered by commercial carriers. To minimize its losses, the City has implemented various risk control techniques such as safety inspections and safety training classes. As part of the City's risk management program, resources are being accumulated in an Internal Service Fund to meet potential losses relating to general liabilities and tort claims. Reserves are accumulated in the General Fund to meet potential losses for all other exposures.

## Retirement Plans

The City provides retirement benefits through three single-employer defined benefit pension plans that cover all employees. Each of these systems is maintained separately: one system (General Pension Plan) covers general City employees; a second plan covers employees of the Electric Power Board; and the third covers Firemen and Policemen. Each plan also has its own consulting actuary. The following schedule (Table 5) shows the amount of unfunded actuarial accrued liability (UAAL) in thousands at June 30, 2001.

PENSION PLANS

	UAAL	Funded Ratio
General	(61,701,145)	139.80%
Firemen and Policemen	1,600,700	99.21%
Electric Power Board	0	100.00%

TABLE 5

City management and the Pension Boards closely observe the future costs of both benefit improvements and changes in retirement trends of employees. Recommendations of actuaries are carefully considered and appropriate measures are taken to ensure that the pension plans are actuarially sound.

## Enterprise Operations

The City maintains four enterprise operations as part of the primary government. Combined total assets at June 30, 2001, and operating revenues for the fiscal year were \$772.6 million and \$399.6 million, respectively. A brief discussion of the major operations follows:

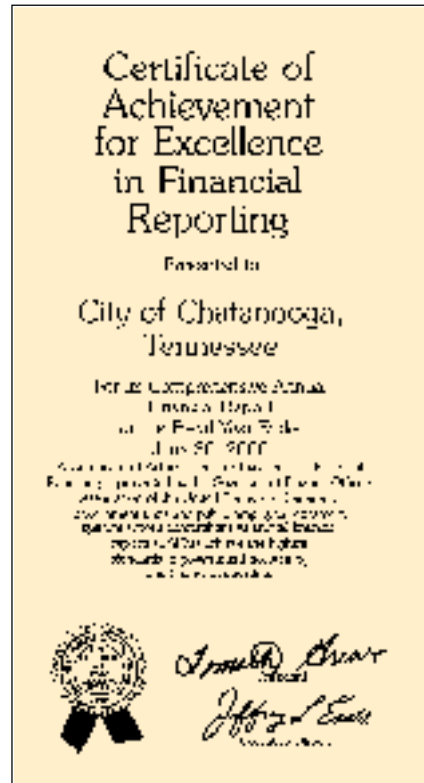
The Electric Power Board, a separate administrative agency of the government, exercises exclusive control and management of the Electric Distribution System. It is the sole distributor of the electric power within the boundaries of the City and County (587 square miles). It accounts for 89.7 percent of total Enterprise Fund operating revenues and reported a net income of \$5.3 million for the year ended June 30, 2001.

The Interceptor Sewer System of the City provides water and sewer services to customers on a self-supporting basis utilizing a rate structure designed to produce revenues sufficient to provide for debt service, operating expenses and adequate working capital. The strong commercial, industrial and residential growth in the City, along with increased federal mandates, has necessitated ongoing expansion of the Interceptor Sewer System. To illustrate, property, plant and equipment of the system in 1976 totaled \$68.8 million compared to \$297.2 million in 2001. The department accounts for more than 45.0 percent of total Enterprise Fund assets.

The Solid Waste/Sanitation Fund was established in accordance with state mandate. This fund accounts for the operations of the City's landfill. Landfill fees are charged commercial customers for use of the landfill, while the cost of City landfill needs are financed through a General Fund subsidy.

An aggressive capital program has been launched to meet landfill requirements set by the state and federal governments. This program is estimated to cost \$38.5 million over a ten-year period.

The Storm Water Fund accounts for the operations of the City's storm water management program as mandated by the Environmental Protection Agency and the state. The program is designed to produce revenues sufficient to provide for debt service, operating expenses and adequate working capital. Since the inception of this program in 1994, the investment in property, plant, and equipment has grown to \$35.5 million.



## Awards of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Chattanooga, Tennessee, for its comprehensive annual financial report for the fiscal year ended June 30, 2000. This was the ninth consecutive year that the City has received this award. The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

The City also received the GFOA Award for Distinguished Budget Presentation for its annual appropriated budget for each

of the five fiscal years for which it applied. In order to qualify for the Distinguished Budget Presentation Award, the City's budget document was judged to be proficient in several categories including policy documentation, financial planning and organization.

## Independent Audit

Tennessee state law requires an annual audit of the financial records and transactions of all City functions by independent certified public accountants selected with the approval of the Mayor and City Council. This requirement has been

complied with and the financial statements have received an "unqualified opinion" from the auditors. Such an opinion indicates there was no limitation on the scope of the auditor's examination, and the financial statements were prepared in accordance with generally accepted accounting principles.

## Acknowledgements

The preparation of this report could not have been accomplished without the professional, efficient, and dedicated services of the entire staff of the Finance Department and the City's independent public accountants, Hazlett, Lewis & Bieter, PLLC. We would like to express our appreciation to members of various City departments who assisted and contributed to the preparation of this report. Further appreciation is extended to the Mayor and the City Council for their interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectfully submitted,

James S. Boney, Administrator



## CITY OF CHATTANOOGA, TENNESSEE

## City Officials as of June 30, 2001

**BOB CORKER, MAYOR**

Michael E. Compton, Chief of Staff

**City Council:**

Yusuf A. Hakeem, Chairman	District 9
Ronald C. Littlefield, Vice Chairman	District 6
John M. Lively	District 1
Sally L. Robinson	District 2
Dan B. Page	District 3
W. Jack Benson, Sr.	District 4
John P. Franklin, Jr.	District 5
John R. Taylor, Sr.	District 7
Leamon Pierce	District 8

**Courts:**

Walter F. Williams	City Court Judge
Russell J. Bean	City Court Judge
Edward C. Hammonds	City Court Clerk

**Department Administrators and Directors:**

LEGAL	Randall Nelson	City Attorney
LEGISLATIVE	Carol O'Neal	Clerk of the Council
PERSONNEL	Donna Kelley	Administrator
NEIGHBORHOOD SERVICES	Kenardo K. Curry	Administrator
HUMAN SERVICES	Bernadine Turner	Administrator
	Tommie Pruitt	Deputy Administrator
PARKS, RECREATION, ARTS & CULTURE	Jerry Mitchell	Administrator
	Janice Hester	Deputy Administrator
PUBLIC WORKS	William C. McDonald, Jr.	Administrator
	Beverly P. Johnson	Deputy Administrator
POLICE	Chief Jimmie L. Dotson	Administrator
FIRE	Chief Jim M. Coppinger	Administrator
FINANCE & ADMINISTRATION	James S. Boney	Administrator
	Daisy W. Madison	Deputy Administrator

Brian Smart	Manager, Financial Operations
Fredia F. Kitchen	Budget Officer
Carl E. Levi	Treasurer
Mark J. Keil	Director, Information Services
Gene D. Settles	Purchasing Agent
Rayburn Traugher	Director, Economic & Community Development
George Morgan	Director of Facilities & Fleet Management
Tracy Clarke	Risk Manager
Donald B. Young	Director, Codes and Inspection
Henry L. Brooks	Director, City Wide Services
Eugene Wright	Director, Waste Resources
Phillip Lynn	City Engineer
John Van Winkle	City Traffic Engineer
Harold E. DePriest	President and CEO, Electric Power Board
Jane McFarland	Director, Chattanooga - Hamilton County Bicentennial Library
(Vacant)	President, Metropolitan Airport Authority
Barry M. Bennett	Director, Regional Planning Agency
Robert H. Colby	Director, Air Pollution Control
Carolyn Skipper	Director, Scenic Cities Beautiful Commission

CITY OF CHATTANOOGA

# Organizational Chart

